Depreciation of Nonexpendable Food Service Equipment

Depreciation of equipment is an allowable direct cost for school food service programs that must be reported on the *June* Claim for Reimbursement – School Nutrition Programs (CNFS 71-5), Part III – Cost Incurred, Item 25 (Other). Do not report the full cost of equipment as a cost incurred; instead report the depreciated value over the life of the asset. Claim preparers are expected to use generally accepted accounting principles, such as those discussed in the *California School Accounting Manual*, when calculating depreciation values.

Appendix A-15 contains CNFS 71-10, Nonexpendable Equipment Depreciation Schedule, which can be used to track annually the depreciation of equipment. When maintaining this schedule, the claim preparers should adhere to the following guidelines:

- Report annual depreciation for nonexpendable equipment with a cost of *$5,000* or more. You may exercise the option to include items of lesser cost when it is deemed desirable to exert an accounting control. For items that are used as a set, such as a table and chairs, cost should be based on the total cost of the set rather than the individual cost of each piece.

  Note: Nonexpendable equipment with an acquisition cost of more than $500 must be *inventoried* (to conform to *Education Code* Section 35168), but nonexpendable equipment with an acquisition cost of $5000 or more must be *depreciated.*

- All records for the full depreciation period shall be retained for three years after the end of the federal fiscal year during which an equipment item is fully depreciated.

- The schedule should reflect nonexpendable equipment with a value of *$5,000* or more currently in use by the food service sponsor, including all nonexpendable equipment that is less than 12 years old, all heavy-duty vehicles that are six years old or less, and all medium-duty vehicles that are four years old or less. All nonexpendable food preparation and serving equipment is considered to have a useful life of 12 years.

- Depreciation should be calculated on an annual basis by using the depreciation rates reflected on page 33.

- An addition of equipment items or vehicles to the schedule should be made only at the time of acquisition and installation or on the return to full use of items in storage. While equipment is in storage, it should not be depreciated. The actual delivered-in-place cost should be reflected in depreciation, regardless of funding source.

The following definitions are provided for the purposes of this section:

acquisition cost. Acquisition cost is the purchase price plus any cost incurred in the delivery and installation of new, used, and rebuilt nonexpendable equipment.

depreciation. Depreciation is reasonable allowance for the deterioration, wear and tear, and obsolescence of nonexpendable equipment.

expendable equipment. Expendable equipment is all equipment other than nonexpendable equipment. Specifically, expendable equipment is that equipment with a useful life of one year or less or that has an acquisition cost of less than $500.

maintenance and repair. Maintenance and repair are functions necessary for the upkeep and efficient operation of equipment. These functions do not add to the permanent value of the equipment or appreciably prolong its intended life.

nonexpendable equipment. Nonexpendable equipment is equipment that has a useful life of more than one year and an acquisition cost of significant value. Significant value is deemed as $500 and over to conform to *Education Code* Section 35168. You may exercise the option to include lesser-value items over which it is desired to exert an accounting control. For items that are used as a set, such as a table and chairs, depreciation should be assessed on the basis of the acquisition cost of the set rather than the cost of each piece.

rebuilt equipment. Rebuilt equipment is nonexpendable property on which capital expenditure of funds has been made for the purpose of restoring the piece of equipment to its original or like-new condition (not to be confused with the repair of equipment, which involves a lesser degree of expenditure to maintain operating condition). The equipment to be rebuilt must be removed from property records while out of service. When rebuilding is completed and the item is returned to use, it should become an addition to the property record. The rebuilding cost, added to the value when removed from records, will result in an acceptable approximation of cost for a new 12-year life expectancy.

The following instructions are provided to assist claim preparers complete Form CNFS 71-10, Nonexpendable Equipment Depreciation Schedule:

type of equipment. Mark the appropriate box. If “Other” is marked, specify the type of equipment. Separate schedules should be kept for each equipment type.

life. Mark the appropriate box. All nonexpendable food preparation and serving equipment is considered to have a useful life of 12 years.

line number. Assign an individual number to each line as the equipment item is entered.

purchase order number. Enter the purchase order number from the document used to purchase the equipment item.

location code and district identification number. Indicate where the equipment is installed and the district identification number, if any.

description. Itemize each piece of non-expendable equipment by name, serial number, size or capacity, or energy source (gas, electric, oil, and so forth).

date installed. Report the month and year that the equipment was put into service. This date is the date that the life expectancy begins.

termination date. Report the month and year of expected life termination. For example, a piece of food service equipment with a 12-year life that begins its service during December 2002 (12/2002) would have a termination date of December 2014 (12/2014).

total acquisition cost. Report the acquisition cost of the equipment. The following method is provided for estimating the original cost of food service equipment in cases where the actual cost is unknown.

Obtain from a local supplier the current cost if you were to purchase or replace the sponsor's existing equipment, determine the age of the food service equipment on hand, and locate the age in the following chart.

Age (in years)	2	3	4	5	6	7	8	9	10	11	12
Percent of Value	96%	92%	88%	84%	80%	78%	76%	74%	72%	70%	68%

Multiply the current cost times the percentage of value to determine the estimated original acquisition cost.

For example, the current replacement cost of a piece of food service equipment that is nine years old is $19,237. The estimated original cost would be the current cost of $19,237 multiplied by the percentage of value; (for an age of 9 years it is 74 percent of the value, for an estimated value of $14,235.38). In this example, $14,235.38 is the amount to enter as the total acquisition cost on the sponsor's Nonexpendable Equipment Depreciation Schedule.

net to be depreciated. Enter 100 percent of the total acquisition cost if the equipment is solely used for the food service program. If the equipment item is used for purposes outside of the food service program, the total acquisition cost should be prorated on the basis of the percentage of time the item is dedicated to the food service program. For example, if an equipment item's total acquisition cost was $10,000 and it is used for the food service program 60 percent of the time. The "net to be depreciated" would be $6,000.

Rate. The annual depreciation rates are listed below. Insert the appropriate depreciation rate in the rate column of the schedule.

Equipment Type/Life Expectancy	Rate
Food Preparation and Serving Equipment (12-year life expectancy)	.08333
Automotive Equipment (4-year life expectancy) (Includes light trucks [empty weight less than 13,000 pounds] and tractor units)	.2500
Automotive Equipment (6-year life expectancy) (Includes heavy trucks [empty weight more than 13,000 pounds] and trailers)	.16667

For example, the total original cost of an item of nonexpendable food preparation, serving equipment, or related equipment is $5,500 (including installation and delivery cost). Because the equipment has a life expectancy of 12 years, the depreciation factor is .08333.

$5,500.00	(value of equipment)
x .08333	(depreciation factor)
$ 458.32	(annual depreciation)

In this example, $458.32 would be entered on the depreciation schedule under "Annual Depreciation" and included in the total cost reported on the June claim for reimbursement.

annual depreciation. Multiply the amount listed under "net to be depreciated" by the appropriate depreciation rate (see example on pages 33-34). Enter this value under "Annual Depreciation."

Deletion. Enter the month and year of the deletions. Annotate the reason for the deletions in the "Notes" section by line number. Draw a red line through the columns titled Net to be Depreciated, Rate, and Annual Depreciation of the items being deleted. When an item is deleted from the schedule, that information transfers to a summary page of deleted items. The records of equipment purchased with food service funds must be kept for three years after the date they become fully depreciated.

total. At the end of the June claim report month, total the column titled Annual depreciation. This amount should be added to the totals from all other applicable depreciation schedules and any other related costs that are not reported under items 23 and 24 of the claim form. The sum total (totals from depreciation schedules and other related costs) should be reported under item 25 of the claim form (CNFS 71-5).